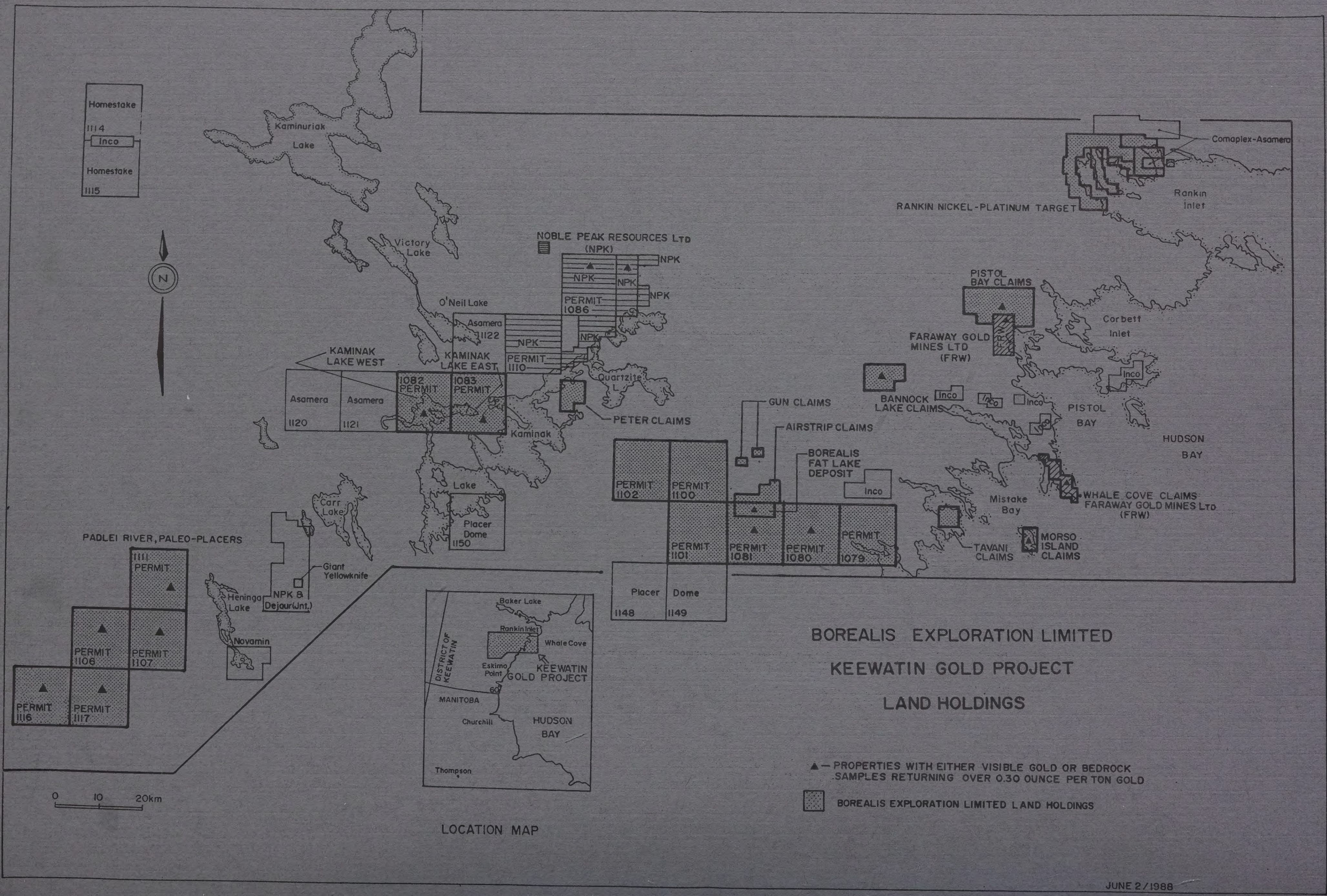
Borealis Exploration Limited

Annual Report

For the Year Ended
March 31, 1988


BOREALIS EXPLORATION LIMITED
KEEWATIN GOLD PROJECT
LAND HOLDINGS
▲ — PROPERTIES WITH EITHER VISIBLE GOLD OR BEDROCK SAMPLES RETURNING OVER 0.30 OUNCE PER TON GOLD
BOREALIS EXPLORATION LIMITED LAND HOLDINGS
JUNE 2/1988
Homestake 1114
Inco
Homestake 1115
N
Kaminuriak Lake
Victory Lake
O'Neil Lake
NOBLE PEAK RESOURCES LTD (NPK)
NPK
PERMIT 1086
PERMIT 1110
Asamera 1122
KAMINAK LAKE WEST
KAMINAK LAKE EAST
Asamera 1120
Asamera 1121
1082 PERMIT
1083 PERMIT
Quartzite L.
PETER CLAIMS
Kaminak Lake
Placer Dome 1150
Carr Lake
Giant Yellowknife
NPK & Dejour(Jnt.)
Heninga Lake
Novamin
PADLEI RIVER, PALEO-PLACERS
1111 PERMIT
PERMIT 1106
PERMIT 1107
PERMIT 1116
PERMIT 1117
0 10 20km
LOCATION MAP
Baker Lake
Rankin Inlet
Whale Cove
Eskimo Point
KEEWATIN GOLD PROJECT
DISTRICT OF KEEWATIN
MANITOBA
Churchill
HUDSON BAY
Thompson
PERMIT 1102
PERMIT 1100
PERMIT 1101
PERMIT 1081
PERMIT 1080
PERMIT 1079
Placer 1148
Dome 1149
GUN CLAIMS
AIRSTRIP CLAIMS
BOREALIS FAT LAKE DEPOSIT
Inco
BANNOCK LAKE CLAIMS
FARAWAY GOLD MINES LTD (FRW)
PISTOL BAY CLAIMS
Corbett Inlet
PISTOL BAY
HUDSON BAY
Mistake Bay
WHALE COVE CLAIMS FARAWAY GOLD MINES LTD (FRW)
TAVANI CLAIMS
MORSO ISLAND CLAIMS
RANKIN NICKEL-PLATINUM TARGET
Comaplex-Asamera
Rankin Inlet

"There is no question that the Rankin-Ennadai greenstone belt will eventually become one of the country's great mineral producers."
Dr. Roland Ridler, Consulting Geologist
In an interview with the Financial Times

Highlights for the Year

- *Borealis paid its first **dividend** equal to 57 cents per share.*
- *Borealis recorded **earnings**, from share transactions, of approximately $1,600,000.*
- *Borealis ended the year with over **$16 million in cash and securities.***
- ***Fat Lake:***
  - *-- Reserve estimates have been announced for veins #99-103*
  - *-- A 370 metre step-out has been drilled.*
  - *-- A ramp is planned to the -40 metre level.*
- *Mineral exploration throughout the Keewatin district has increased significantly .*

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Report to the Shareholders

The mineral potential of the Keewatin District is gaining widespread recognition within the industry. Simultaneously with an increase in the level of Borealis activity, there has been a substantial increase in exploration efforts by other companies in the area. In addition to Borealis and its farm-out partners, Placer Dome, BHP-Utah International, Asamera Minerals, and Urangesellschaft are each pursuing aggressive exploration programs in the Keewatin.

Fat Lake

The Fat Lake deposit is one of five targeted gold-bearing structures located in the vicinity of the Company's original discovery approximately 90 miles southwest of Rankin Inlet. Extensive and detailed mapping has shown that the fundamental host rock and controlling feature of the gold bearing quartz veins is a near vertical quartz diorite sill intruding intermediate to mafic greenstones of the archaean Kaminak Group. The sill has been traced over a strike of 2.5 kilometers and has a mean thickness of 80 metres.

Gold mineralization has been found throughout the length of the sill but, to date, much of the Company's exploration efforts have focused on a sequence of en echelon, stacked quartz veins. Over forty such veins have been identified in areas of surface outcrop but detailed work has been concentrated on only four of these veins in the west --veins#99-#103.

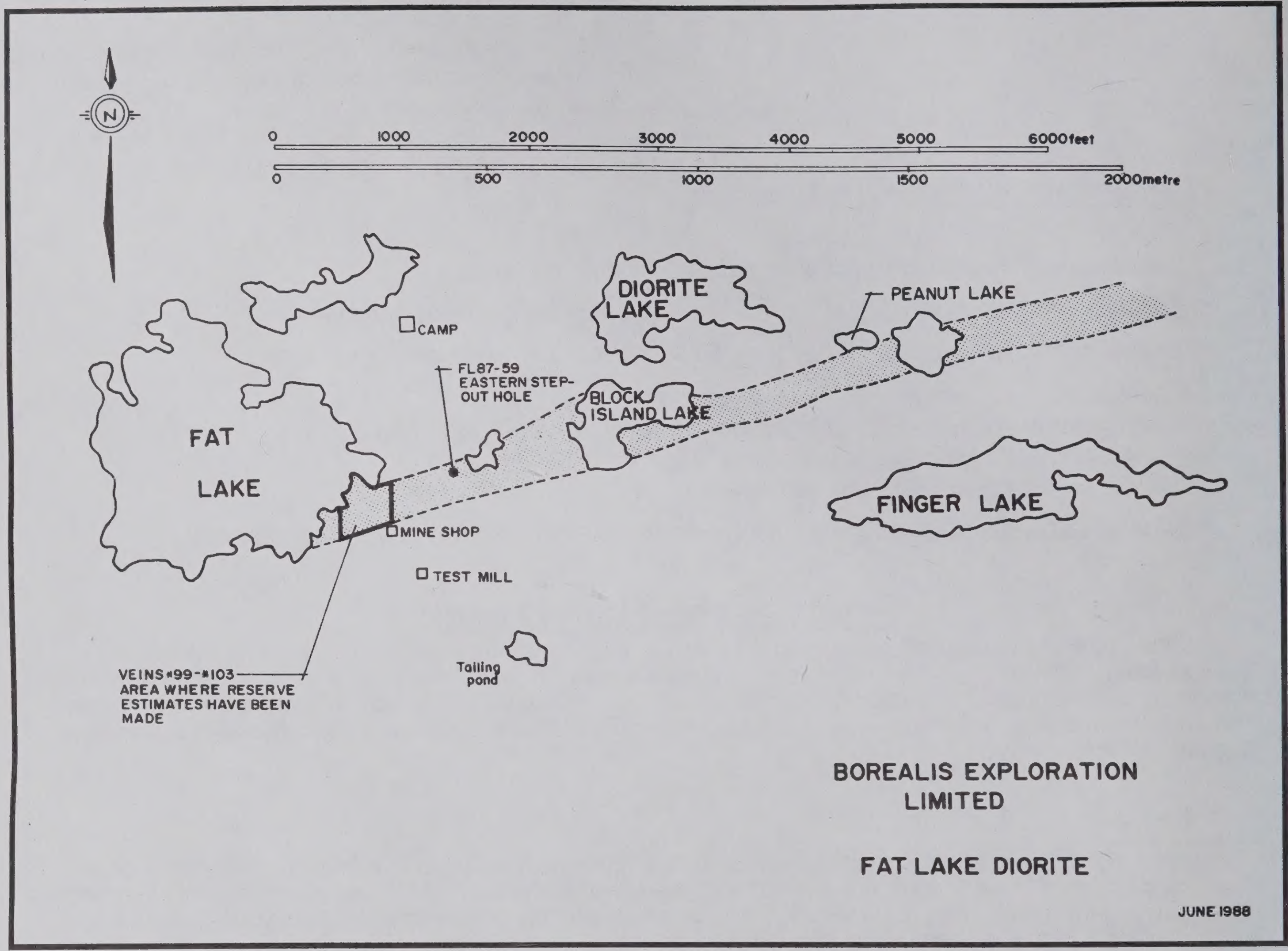
Reserves on Veins #99-103

A total of 41 holes has been drilled on the four western quartz veins, assayed, and analyzed and 17 additional holes are currently in analysis. On the basis of the 41 holes analyzed to date, a preliminary estimation of reserves has been made.

Total drilled reserves to date on Veins #099 - #103

	Tonnage	Grade (oz/ton gold)	Thickness
Proven to the 67 metre depth	52500t	0.325	161 cm
	discounting #99 44500t	0.359	175 cm
Indicated to the 200 metre level	184000t	0.307	155 cm
	discounting #99 142000t	0.358	175 cm

Note: the foregoing assessment takes into account only the drill proven strike, assumes a minimum stope width of 90cm, and accepts all drill hole results, whether high or low, within the designated areas. On veins #102 and #103 the full strike potential has not yet been drilled, and is therefore not taken into account in the indicated reserves.



Step Out

While tonnage indicated to date on the four veins is not yet sufficient to warrant the establishment of a mine, this represents an estimate of shallow reserves on only 10% of the known veins which outcrop to surface. To test the gold-bearing potential of other veins in the sequence, 9 purely exploration holes were drilled on exposures further to the east and west. Of particular significance Hole #87-59, sited some 375m east of vein #101, shows mineralized zones which returned:

10.541 oz/ton gold	over 160cm	at 7.9m drilled depth
0.113 oz/ton gold	over 90cm	at 24.1m drilled depth

Underground Development

Underground exploration is the only reliable method of assessing a vein-type deposit. No amount of drilling, of whatever depth and intensity of spacing, will give data of sufficient level of confidence on which to base a decision to invest a full scale plant and other infrastructural amenities.

In 1987 the decision was made to go underground by means of a shallow steeply declined shaft to the -17 metre level in order to continue exploration of Vein #101. A 76 metre drift along Vein #101 was mapped and sampled after every blast over full drive width. This work confirmed that the vein is essentially continuous, that gold mineralization is not confined to isolated high grade pods, and that grades, taken to mineable widths appear commercial.

To have probed the ore body at such a shallow depth by means of a steeply declined slusher gully was dictated by considerations of economy and was appropriate for a first stage underground exploration effort. The results of this effort were sufficiently encouraging to warrant a more extensive underground evaluation and after careful evaluation of the 1987 programs, the decision was made to continue underground exploration by means of a ramp (3m by 3.5m) to the -40 m level. In 1988 and 1989, this ramp will serve as a platform for all further exploratory work within the already drill designated ore zone and for other veins in the system. Exploration will continue by drifting along each quartz vein as it is exposed by the east-west haulage probe.

This construction of a ramp to the -40 metre level represents a very significant expansion of the planned underground exploration program and additional funding is now being sought to complete this ramp. However, the benefits of such a ramp, clearly justify the increased costs and possible delays because:

1. The decline shaft while adequate for a preliminary exploratory probe is an awkward and costly method of extracting ore.
2. Stope-mining upward from the -17 metre level (leaving a regulation cap of 3-5 meters) does not allow for efficient exploitation of the ore body.

Clearly, underground exploration, should, if possible, be so designed and located as to have maximum final usage. The optimum level for exploitation would be the 50 metre level but time and cost considerations suggest that the -40 metre level would better serve the present purposes.

In making the decision to proceed with the ramp the objectives of the Fat Lake program have been expanded from simply bringing a small mine into quick production to a broader evaluation of the vein system as a whole as a mine.

In excess of 1000 tonnes of stores and equipment have been moved to site during the past winter, in preparation for the sinking of the trackless access ramp. The camp can now accommodate more than forty personnel in trailer units. A mine work shop, bulk fuel storage tanks, electrical generators, and other facilities are in place.

A test mill, nominally rated at 100 tons per day, was constructed and commissioned in late 1987. The test mill will be modified to correct the ball mill feed system and will be prepared to process such ore as may be recovered from the exploration campaign. The Company's priority in 1988 is exploration and not mining, but as part of the program an estimated 2000 tonnes is expected to be available for this season from the Vein #101 test stope and from ore intersections. The primary purpose of the test mill, in this program, is to establish criteria, under actual site conditions, for design of a future full-scale mill.

Contingent on the success of the underground exploration program and the test milling program sufficient reserves could be defined by late 1989 to warrant a mining decision. Stope mining of the veins at an initially small but commercially profitable rate could begin soon thereafter.

Fat Lake is the first ore zone in the area to be considered for mining, but not the only prospect in the immediate area or on the land held by Borealis in the Keewatin that shows promise for a future mine.

Other Properties

Happy Lake Project

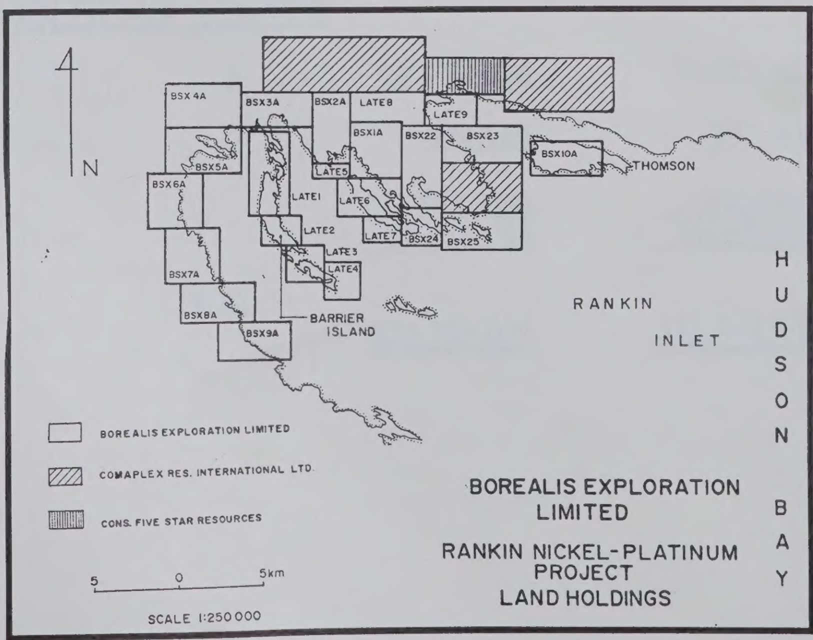
Noble Peak Exploration Ltd., has just completed its spring drilling program on land farmed-out from Borealis. According to Noble Peak, the purpose of this program was to develop information to select one or more prospects for detailed definition of tonnage. Thirteen potentially economic gold prospects had been identified by earlier work. Results of this program have not as yet been announced. However, the management of Noble Peak has assured Borealis that Noble Peak is preparing to make a positive production decision by March 31, 1989.

Noble Peak may earn a 50% interest prior to pay-out in the land governed by the farm-out agreement by bearing 100% of the exploration and development costs. After pay-out the Noble Peak interest will be reduced to 40% and Borealis will retain a 60% interest in these properties.

Rankin Inlet

Borealis holds 48,365 acres in the vicinity of the town of Rankin Inlet. An Asamera/Comaplex joint venture holds 15,720 acres in the area which includes the site of the old Rankin Inlet Nickel mine. The reason for the interest in the area is not solely the strong nickel market but also the fact that the deposit is now known to contain significant platinum group elements. The Asamera/Comaplex joint venture has been drilling on its claims.

Borealis is currently assessing and compiling data in preparation for field mapping this summer which will precede exploratory drilling in the fall and midwinter of 1988/89.



BOREALIS EXPLORATION LIMITED

RANKIN NICKEL-PLATINUM PROJECT LAND HOLDINGS

Pistol Bay

The previous years' work has located three gold-bearing veins of economic interest; the Luk Sik Sik, Charlie's, and the Promised Valley. These claims have been farmed out to Faraway Gold Mines Ltd. Under the terms of the farm-out agreement, Faraway may earn a 50% interest prior to pay-out in the claims governed by the contract by bearing 100% of the exploration and development costs. After pay-out the Faraway interest will be reduced to 40% and Borealis will retain a 60% interest in these properties.

Faraway plans a detailed field mapping, supplemented by a geophysical program in the vicinity of these veins. This work will be followed by channel sampling and diamond drilling later in the year.

The Padlei Paleoplacers

The company has permits and options on permits to about 220,000 acres over pyrite-rich uranium and gold-bearing conglomerates in the Padlei area 90 miles southwest of Fat Lake. The area is underlain by rocks identical to the banket hosts of the South African Witwatersrand -- the world's pre-eminent gold-mining district. It is important to note that the Padlei is not unique in Canada in its similarity to the Witwatersrand. There are three mines currently exploiting similar ore bodies: Elliott Lake, Quirke, and Blind River.

A detailed geological mapping of outcrop and drill sampling of pebble beds has been planned for the 1988 season. A sedimentologist, seconded to Borealis from one of the six South African majors will assist the Company's geological staff in the evaluation of this property.

The Padlei paleoplacers are of particular interest to Borealis because if commercial gold grades are established, the potential exists in a structure of this size for very large scale mining. As a corollary, the cost of exploration and development on a structure of this size is relatively high, compared for example to a Fat Lake type deposit. The Padlei paleoplacers represent an ambitious undertaking and will require a great investment of time and Company resources. Borealis is seeking joint-venture partners for this project.

Finance

The Company's policy continues to be to actively pursue exploration throughout its holdings while working to bring Fat Lake into commercial production. To fund this effort Borealis has raised $5.5 million in flow-through funding for calendar 1988. This sum is not sufficient to complete the amended 1988 planned underground exploration program on Fat Lake. Borealis is seeking other funding in order to continue exploration and development on Fat Lake and on other Borealis land. Discussions are in progress on various funding alternatives including: gold-backed loans, sale of property interests, sale of flow-through shares and common shares, and farm-outs.

The success of the Borealis exploration efforts in the Keewatin fully warrants an increased commitment to exploration, development, and production.

Rodney T. Cox, Ph.D.
President/Chairman of the Board

Borealis Exploration Limited

(Incorporated under the laws of Canada)

CONSOLIDATED BALANCE SHEET

March 31, 1988

ASSETS

	Notes	1988	1987
CURRENT ASSETS			
Cash		$ 754,647	$ 1,103,406
Accounts receivable		31,283	40,814
Deposits	2	173,745	277,388
Receivable from a shareholder	3	210,063	-
		1,169,738	1,421,608
INVESTMENT IN SHARES (MARKET VALUE - $15,578,100; 1987 - $10,619,400)	4	1,795,827	1,864,000
MINING LEASES, CLAIMS AND EXPLORATORY PERMITS		389,060	369,060
EXPLORATORY AND DEVELOPMENT EXPENSES DEFERRED		16,972,624	9,014,646
GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED		4,431,777	3,175,988
		$24,759,026	$15,845,302

LIABILITIES

	Notes	1988	1987
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 1,316,836	$ 1,252,381
Due to shareholder		--	331,349
Agreement payable		--	122,000
Demand loan payable	5	1,503,050	--
Payable to affiliated company		320,146	--
		3,140,032	1,705,730

SHAREHOLDERS' EQUITY

	Notes	1988	1987
CAPITAL STOCK	6	22,214,036	14,427,524
CONTRIBUTED SURPLUS	7	998,180	572,109
DEFICIT		(1,593,222)	(860,061)
		21,618,994	14,139,572
CONTINGENT LIABILITIES AND COMMITMENTS	11,12		
		$24,759,026	$15,845,302

APPROVED BY THE BOARD

Joseph T. Mattern, Director

______________________ Director

Borealis Exploration Limited

CONSOLIDATED STATEMENT OF EXPLORATORY AND DEVELOPMENT EXPENSES DEFERRED

YEAR ENDED MARCH 31, 1988

	Balance March 31, 1987	Additions	Balance March 31, 1988
Geological fees and expenses	$ 533,026	$ 481,126	$ 1,014,152
Assays	302,222	71,610	373,832
Direct administration	464,863	443,199	908,062
Engineering study	174,383	2,443	176,826
Transportation study	11,862	--	11,862
Northern Mineral Exploration Assistance Program	(9,036)	--	(9,036)
Salaries and benefits	1,295,960	368,170	1,664,130
Drilling	1,040,033	298,743	1,338,776
Contractors' fees	121,731	--	121,731
Transportation and travel	1,061,871	878,009	1,939,880
Camp and accommodation	190,924	46,703	237,627
Equipment rental	283,870	1,326	285,196
Consultants' fees and expenses	1,972,193	357,090	2,329,283
Depreciation	352,656	212,185	564,841
Fuel, materials and supplies	516,756	1,222,242	1,738,998
Miscellaneous	38,826	229,605	268,431
Trenching and geophysical	59,123	--	59,123
Surveying	43,292	45,757	89,049
Aircraft expenses	307,866	895,305	1,203,171
Bulk sampling	--	2,211,756	2,211,756
	8,762,421	7,765,269	16,527,690
Less expenses relating to mining properties abandoned or sold	446,761	383,900	830,661
	8,315,660	7,381,369	15,697,029
Mining and other equipment less accumulated depreciation	698,986	576,609	1,275,595
Total exploratory and development expenses	$ 9,014,646	$ 7,957,978	$ 16,972,624

Borealis Exploration Limited

CONSOLIDATED STATEMENT OF GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED

YEAR ENDED MARCH 31, 1988

	Balance March 31, 1987	Additions	Balance March 31, 1988
Financial, technical and other services under contract	$ 118,057	$ 778	$ 118,835
Salaries and office services	294,570	311,106	605,676
Interest and exchange	1,272,178	185,985	1,458,163
Legal and accounting	396,227	172,502	568,729
Specialized services	69,272	--	69,272
Shareholders' expenses	167,676	28,824	196,500
Depreciation	18,823	8,502	27,325
Professional fees and services	774,478	268,272	1,042,750
Office, travel and miscellaneous	855,137	448,931	1,304,068
Guarantee fees	111,725	--	111,725
Interest income and miscellaneous	(48,344)	(39,734)	(88,078)
	4,029,799	1,385,166	5,414,965
Less amounts recovered from partners	113,585	--	113,585
	3,916,214	1,385,166	5,301,380
Less portion of general and administrative expenses considered allocable to mining properties abandoned or sold	740,226	129,377	869,603
Total general and administrative expenses	$ 3,175,988	$ 1,255,789	$ 4,431,777

Borealis Exploration Limited

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED MARCH 31, 1988

	1988	1987
DEFICIT, beginning of the year	$ 860,061	$ 612,434
ADD		
Exploratory and development and general and administrative expenses relating to mining properties abandoned or sold	513,277	247,627
Dividends paid in the year	1,391,223	--
LESS		
Gain on disposal of investments	(1,171,339)	--
DEFICIT, end of the year	$1,593,222	$ 860,061

Borealis Exploration Limited

CONSOLIDATED STATEMENT OF CASH FLOW

YEAR ENDED MARCH 31, 1988

	1988	1987
FINANCING ACTIVITIES		
Proceeds from issue of capital stock	$8,682,698	$5,039,666
Proceeds from sale of repurchased shares	568,829	236,298
Advances from (to) a shareholder, net	(541,412)	451,710
Dividends paid	(1,391,223)	--
Proceeds from demand loan	1,503,050	--
Cancellation of capital stock	(1,038,946)	(645,000)
Share issue expenses	--	(18,500)
Reduction in agreement payable	(122,000)	(71,908)
	7,660,996	4,992,266
INVESTING ACTIVITIES		
Exploration and development and general and administrative expenses deferred	(9,725,054)	(3,355,859)
Investment in shares	--	(764,000)
Proceeds from sale of investments in shares	1,239,510	--
Net proceeds from sale of fixed assets	72,000	--
Advances from affiliated company	320,146	--
Disposition of property held for resale	--	365,000
Purchase of mining leases, claims, and exploratory permits	(20,000)	(53,750)
	(8,113,398)	(3,808,609)
CASH INFLOW (OUTFLOW)	(452,402)	1,183,657
CASH AND EQUIVALENTS, beginning of the year	1,380,794	197,137
CASH AND EQUIVALENTS, end of the year	$ 928,392	$1,380,794
CASH AND EQUIVALENTS IS COMPRISED OF:		
Cash	$ 754,647	$ 1,103,406
Deposits	173,745	277,388
	$ 928,392	$1,380,794

Borealis Exploration Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the company are stated in Canadian dollars and have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and in light of information available up to June 6, 1988. Significant accounting policies are summarized below:

(a) Mining Operations

Mineral properties are recorded at cost. Exploration and development costs relating to these properties are deferred until the properties are brought into production, at which time the costs will be amortized on the unit of production basis, or until the properties are abandoned or sold at which time the costs are written off.

The company depreciates its mining and other equipment using the following declining balance method at the following rates:

Aircraft	25%
Office Equipment	20%
Mining equipment	20% and 30%
Computer equipment	30%

The ultimate recovery of the costs of the mining properties and the exploratory and development and general and administrative expenses deferred, is dependent upon the company's ability to obtain adequate financing in order to complete the development of the properties and upon future commercial and profitable production.

(b) Principles of Consolidation

The consolidated financial statements include, in addition to the accounts of the company, the accounts of its wholly-owned subsidiaries, Borealis Exploration Incorporated and Borealis Gold Ltd.

(c) Investment in Shares

The company's investment in shares has been accounted for using the equity method of accounting where the investment is initially recorded at cost and the carrying value adjusted thereafter to include the company's pro rata share of post acquisition earnings and the cost method of accounting for the shares when the company cannot exercise significant influence on the investment.

(d) Foreign Currency Translation

The accounts of the foreign subsidiary and other foreign denominated transactions have been translated to Canadian dollars using the temporal method on the following basis: monetary items at the rate of exchange at the year-end; other assets and liabilities at the historical rate of exchange. The items in the statements of exploratory and development and general and administrative expenses deferred are translated at the average rates of exchange prevailing during the year.

(e) Flow-through Shares

During the year, the company issued flow-through shares through which expenditures were made in accordance with certain provisions of the Income Tax Act (Canada) which provides for the income tax deductions attributed to them to flow through to subscribers and, accordingly, they have a nil income tax cost to the company.

The value assigned to the properties upon which subscribers' funds were expended is the actual dollar amount of the expenditures with such expenditures being deferred as described in note 1(a). Share capital has been recorded based on cash received.

2. DEPOSITS

	1988	1987
Government of Canada	$ 32,559	$ 14,261
Deposits with suppliers	141,186	263,127
	$ 173,745	$ 277,388

The deposit with the Government of Canada is a requirement of the Canada Mining Regulations for work performance requirements.

3. RECEIVABLE FROM A SHAREHOLDER

During the year the company repaid the loan due to the shareholder and has advanced the shareholder $210,063 which is classified as a current asset as the shareholder has indicated that the amount will be repaid within the current year.

4. INVESTMENT IN SHARES

	1988	1987
Noble Peak Resources Ltd.	$1,031,827	$1,100,000
Faraway Gold Mines Ltd.	710,000	710,000
Stratabound Minerals Corp.	54,000	54,000
	$1,795,827	$1,864,000

At March 31 and June 6, 1988, the quoted market value of the shares was $15,578,100 and $12,633,040 respectively (1987 - $10,619,400).

Noble Peak Resources Ltd. is being accounted for at cost because the company is unable to exert significant influence due to the existence of a voting trust in effect until March 31, 1989.

Pursuant to an agreement dated March 2, 1987, the company acquired 2,200,000 common shares of Faraway Gold Mines Ltd. in exchange for 30,000 shares of the company and a further 200,000 shares were purchased from a shareholder. As this agreement is binding upon the company the assets have been included in the accounts but is still subject to regulatory approval.

The company has an agreement with Noble Peak Resources Ltd. and Faraway Gold Mines Ltd. whereby each of them will pay 100% of the exploration and development expenditures to production on certain of the company's mining permits to earn a 50% interest before payout and a 40% interest after payout. The agreement requires expenditures of $1,500,000 by each and a production decision prior to March 31, 1989 for Noble Peak Resources Ltd. and March 3, 1990 for Faraway Gold Mines Ltd. or the interest in the properties reverts back to the company.

5. DEMAND LOAN PAYABLE

The loan of $1,503,050 bears interest at 15% compounded annually, is secured by a guarantee of a shareholder and is payable on demand. In consideration the lender has been granted an option to purchase shares of the company, commencing September 21, 1987, as follows:

75,000 shares @ $22.50 expiring June 21, 1988
75,000 shares @ $27.00 expiring February 21, 1989
75,000 shares @ $32.50 expiring September 21, 1989

6. CAPITAL STOCK

(a) Authorized capital stock of the company consists of an unlimited number of common shares without par value.

(b) Issued capital stock of the company consists of the following:

	Number of Shares	Stated Value
Shares issued from treasury, March 31, 1987	2,398,619	$13,786,442
Issued		
Pursuant to flow-through share agreements	362,732	8,139,878
In exchange for services	27,226	542,820
	389,958	8,682,698
Less shares repurchased and cancelled	(16,000)	(131,296)
Shares issued from treasury, March 31, 1988	2,772,577	22,337,844
Add shares to be issued pursuant to investment in shares (note 4)	30,000	660,000
Less shares held by subsidiaries [note 6(d)]	(116,900)	(783,808)
Balance, March 31, 1988	2,685,677	$22,214,036

(c) Pursuant to a flow-through share agreement the company has reserved 2,602 shares for warrants exercisable up to June 1, 1993 at a price of $.01 per share.

(d) By Board of Directors' resolution dated June 5, 1985, the company has entered into an option agreement dated June 20, 1985 with a major shareholder whereby the company has been granted an option to repurchase 702,533 shares of the company at $5.00 U.S. per share until July 15, 1987.

As at July 15, 1987, the company had repurchased 190,000 shares at the option price and extended the option to repurchase 10,000 shares every three months commencing October 15, 1987 at $7.50 U.S. per share and the balance, at July 15, 1988, at $8.00 U.S. per share.

The company assigned the right to repurchase the shares described above to its wholly-owned subsidiary, Borealis Gold Ltd. As at March 31, 1988, Borealis Exploration Incorporated owned 19,900 shares and Borealis Gold Ltd. owned 97,000 shares.

(e) By authorization of the company, the president, at his sole discretion, can authorize the issue of up to 12,000 shares in the aggregate per annum to any individual as compensation for work done for or on behalf of the company.

(f) A flow-through share issue of the company was issued with a contingent note receivable of $160,000 for the shares issued. If the market price of the company's stock reaches a certain level prior to June 1993, the note is payable immediately. If the share price does not reach this level by the date indicated above, the note is deemed to be paid in full. The note is secured by shares and warrants of the company and because of the contingent nature of this note, management cannot be certain of its collectibility, therefore, it is not reflected in the accounts.

7. CONTRIBUTED SURPLUS

During the year, the company redeemed and cancelled 16,000 shares at a cost of $242,877. The excess of cost over the stated value of the capital stock cancelled in the amount of $111,581 has been applied to reduce the company's contributed surplus.

During the year, the company's wholly-owned subsidiaries purchased 180,000 shares of the parent company for $1,254,068 and then sold 73,000 shares for $1,026,831. The excess of the purchase price over the stated value of the shares has been applied to reduce the contributed surplus by $31,178. The excess of the selling price over the cost of the shares has been applied to increase the contributed surplus by $568,830.

8. ECONOMIC DEPENDENCE

In order to finance exploration activities, the company has incurred significant liabilities. As the company has not yet established a self-sustaining cash flow from operations, it is primarily dependent upon certain shareholders for financial support (see notes 3 and 9).

9. RELATED PARTY TRANSACTIONS

The company has had numerous financial transitions with the president. These transactions consist of cash advances to the company, personal guarantees to and repayment of some of the company's liabilities and repayment of some bank debts of the company. These transactions are fully described in other notes to the financial statements.

10. INCOME TAXES

The company has incurred certain resource related expenditures which can be used to reduce taxable income in future years. No future tax benefit of these expenditures has been recognized in the accounts.

Income tax deductions related to the gross expenditures incurred with flow-through share proceeds in prior years are allocated to the investor and accordingly the company will not receive any tax deductions for these expenditures.

11. CONTINGENT LIABILITIES

(a) A legal action has been instituted by a former consultant to the company. The plaintiff is claiming for unpaid consulting fees of approximately $76,000 plus costs of litigation and overdue interest. The company has filed a counterclaim for general damages and for specific damages for nonperformance in a timely manner. The outcome of the dispute, in the opinion of management, is that the legal action will be resolved in favour of the company.

(b) The company has agreed to pay any and all taxes which may be payable in connection with 475,000 shares cancelled prior to March 31, 1985. The amount of tax, if any, is not yet determinable.

(c) Under a flow-through share agreement, the company is contingently liable for the penalties and taxes of a shareholder if any expenditures renounced to the shareholder are disallowed. The total possible renunciation of expense to the shareholder under the agreement amounts to $360,000. Management is of the opinion that none of the expenses renounced will be disallowed.

12. COMMITMENTS

(a) By option agreement dated June 5, 1985 [note 6(d)], the company has granted a gross overriding royalty as defined in the contract to a major shareholder, amounting to a 1/48 interest on minerals and hydrocarbons mined and oil and gas produced on 10,973 acres of mining leases held by the company.

(b) By agreement dated March 1, 1979 and reaffirmed by the option agreement mentioned in note 6(d), the company granted a royalty interest to a major shareholder based on 5% of the crown royalty interest on 10,973 acres of mining leases currently held by the company.

(c) The company has lease obligations on office premises and equipment, commencing December 1, 1986 as follows: 1989 - $21,500; 1990 - $21,500 and 1991 - $12,500.

13. STATUTORY INFORMATION

The company has nine directors. 10,500 shares (10,250 in 1987) were issued and $410,125 in cash ($364,000 in 1987) was paid for a total of $620,125 ($575,375 in 1987) as remuneration for services rendered by the directors and senior officers (including the five highest paid employees) of the company.

14. COMPARATIVE FIGURES

Certain 1987 comparative figures have been reclassified to conform with the current year's presentation.

Buchanan, Barry & Co.

CHARTERED ACCOUNTANTS

CALGARY, ALBERTA

Auditors' Report

To the Shareholders of
Borealis Exploration Limited

We have examined the consolidated balance sheet of Borealis Exploration Limited as at March 31, 1988 and the consolidated statements of exploratory and development expenses deferred, general and administrative expenses deferred, deficit and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards in Canada, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1988 and the changes in its exploratory and development expenses deferred, general and administrative expenses deferred, deficit and cash flow for the year then ended in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.

June 6, 1988 — Chartered Accountants

Comments by Auditor for U.S. Readers On Canada-U.S. Reporting Conflict

In the United States, reporting standards for auditors require the expression of a qualified opinion when the consolidated financial statements are affected by uncertainties in connection with the ultimate recovery of costs such as those more fully referred to in the attached consolidated balance sheet as at March 31, 1988 and as described in note 1(a) of the financial statements. The opinion in our report to the shareholders dated June 6, 1988 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

June 6, 1988 — Chartered Accountants

Corporate Information

BOARD OF DIRECTORS
John W. Abernethy, P. Eng.
Henry M. Beaumont, Q.C.
Chana B. Cox, Ph.D.
Rodney T. Cox, Ph.D.
David M. Goldenberg, LL.B.
Wayne S. Marshall, Ph.D.
Joseph T. Mattson, B.S.
Cameron O. Smith, M.S.
A. Asher Turin, B.A.

OFFICERS
Rodney T. Cox, President/Chairman of the Board
Joseph T. Mattson, Vice President Development/Director, Operational Planning
Adrian G. Mann, Vice President Geology
Chana B. Cox, Vice President/Director of Planning
David M. Goldenberg, Secretary/Director

COUNSEL
David M. Goldenberg, LL.B.
Beaumont Church
Calgary, Alberta

AUDITORS
Buchanan Barry & Co.
Chartered Accountants
Calgary, Alberta

STOCK EXCHANGE LISTING
Alberta Stock Exchange
Symbol: BSX

REGISTRAR AND TRANSFER AGENT
Montreal Trust Company
411 - 8th Avenue S.W.
Calgary, Alberta

INCORPORATED
Dominion Charter: August 26, 1968
Dominion Continuance: September 10, 1979

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DATE OF ANNUAL SHAREHOLDERS MEETING
July 6, 1988